

## Retirement expert: Medicare woes mostly rooted in myth

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Various misconceptions surrounding the continued viability of Medicare can be debunked or discredited, according to a paper published by law professor Richard L. Kaplan, a University of Illinois expert on retirement benefits. Photo: L. Brian Stauffer

(Medical Xpress) -- Various misconceptions surrounding the continued viability of Medicare can be debunked or discredited, making it more important than ever for voters and policymakers to fully understand the program's existing contours and limitations, according to a paper published by a University of Illinois expert on retirement benefits.

Law professor Richard L. Kaplan says [Medicare](#) has become one of the most controversial federal programs for numerous reasons, but misinformation has played a key role in fostering criticism of it.

“Medicare is an important and complicated program that has no counterpart in the American health care system, and its significance to

Americans of all ages is impossible to overstate,” said Kaplan, the Peer and Sarah Pedersen Professor at Illinois.

“At the same time, its very size, cost and complexity make it a natural target for serious reform and cost reduction. Therefore, Medicare has become a lightning rod simply because it is eating up more federal resources every year.”

Among the myths that have sprouted, perhaps the most popular one is that Medicare is going bankrupt, Kaplan says.

“Medicare consists of several distinct components with differing mechanisms for financing its costs,” he said. “Medicare Parts B and D are financed by premiums paid by current-year enrollees and general tax revenues. These funds are generated in the current fiscal year.”

As long as the federal government receives tax revenues from any source and there are any enrollees in Medicare Parts B and D, those two programs can be funded, Kaplan says.

Medicare Part A, however, is a very different arrangement, because it collects payroll taxes paid by current workers and funnels those taxes to a “trust fund” that pays for its expenditures, Kaplan says.

“But money is fungible, and the federal government can spend whatever sums it wishes on whatever programs it deems worthy of funding,” he said. “After all, there is no ‘trust fund’ for the Defense Department, but the lack of a dedicated funding source has not prevented paying for wars in Iraq and Afghanistan.”

Another myth is that Medicare is not “means-tested” – that is, higher-income beneficiaries don’t pay more than lower-income beneficiaries for the same benefits.

“Medicare Part A has been means-tested from the very beginning, because a payroll tax necessarily means that you pay more if you earn more,” Kaplan said. “Since 2006, under legislation signed by President Bush, enrollees above a certain income threshold pay higher premiums for their Medicare Part B coverage, and a provision of the Affordable Care Act extends that treatment to Medicare Part D, the prescription drug program.

“One can argue that wealthy people should pay still more, but the point is that we already have means-testing in Medicare.”

Another popular myth is that Medicare is politically untouchable. Not true, says Kaplan.

“Both Democrats and Republicans have reduced Medicare’s budget in virtually every budget cycle for the last 20 years, mostly on the providers’ side, by reducing the amount Medicare pays to hospitals, nursing homes, home health care agencies, pharmacies and the like,” he said. “In fact, half of the financing for the Affordable Care Act comes from cuts to Medicare’s budget.”

Such budget cuts, however, are not painless to beneficiaries, Kaplan says.

“If [health care](#) providers decide that they are not going to take any new Medicare patients, there may be serious access issues,” he said. “We’ve seen that happen already with Medicaid, and it might soon happen with Medicare.”

As the baby boomer generation becomes direct beneficiaries as program enrollees, Kaplan says it is essential that would-be reformers undertake an informed discussion and analysis of proposals to control the future cost of Medicare.

“Only if the many myths that surround this program are debunked can the difficult decisions and inevitable policy trade-offs be developed that will maintain the program’s singular importance for older Americans,” he said.

Provided by University of Illinois at Urbana-Champaign

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